responsible progressive accountable

QUARTERLY REPORT

For the quarter ended September 30, 2006

FINANCIAL HIGHLIGHTS

For the second quarter ended
September 30, 2006 (unaudited)

In the second quarter, the total Payment to Province was $44.7 million, which is $0.2 million lower than the prior year, due to budgeted declines in Video Lottery (VL) and offset by favourable results from the Ticket Lottery (TL) and casino business lines.

The VL business line accounted for $25.2 million of the Payment to Province, which is $5.4 million lower than the previous year. The reduction in revenue was planned and resulted from the implementation of the four VLT-related Gaming Strategy initiatives.

The TL business line accounted for $12.8 million of the Payment to Province, which is $3.8 million higher than the previous year. This increase is attributable to positive performance in Scratch'n Win and online games such as Lotto 6/49.

The Casino Nova Scotia, Halifax Payment to Province was $6.5 million, which is $0.9 million higher than the previous year. The Casino Nova Scotia, Sydney Payment to Province was $2.6 million, $0.3 million higher than the previous year. The Casino Nova Scotia increase in revenue is a result of implementing the Capital Improvement Plan, including the following: slot machine upgrades with Ticket-in Ticket-out (TITO) technology; the implementation of multi-denominational slots; the addition of new games; and enhanced food and beverage offerings.

Responsible gambling expenditures of $0.5 million were used to support responsible gambling and prevention programming initiatives launched and implemented during this period.

Win Tax of $5.1 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter.

In addition to corporate initiatives aimed at promoting the responsible use of its products, the Nova Scotia Gaming Corporation (NSGC) made the following financial contributions to assist in the research and treatment of problem gambling as well as in the delivery of prevention programs:

	Quarter ended September 30, 2006	**Quarter ended September 30, 2005**
Nova Scotia Gaming Foundation		
Video Lottery Retailers	$ 94,450	$ 72,250
Nova Scotia Gaming Corp.	94,450	72,250
	188,900	144,500
Responsible Gambling/Prevention Programming programs	512,930	588,800
Contribution to Department of Health Promotion and Protection	955,500	1,000,000
Total Contributions	**$ 1,657,330**	**$ 1,733,300**

OPERATIONAL HIGHLIGHTS

For the second quarter ended
September 30, 2006 (unaudited)

In the second quarter of 2006-07, Casino Nova Scotia continued to promote the revitalized Halifax Casino with its "Live the Thrill" marketing campaign. The Halifax Casino hosted a full entertainment line-up featuring Kim Mitchell, Chilliwack, Cirque Sublime, hypnotist Wayne Lee, and the return of Bruce Guthro's Songwriter's Circle. Complimentary parking with $50 in casino spending was introduced on August 1st as a customer service enhancement for Player's Club members. Three poker tournaments took place in Halifax in the second quarter, including the "Jack and Jill" tournament in July, the "Natal Day Knockout" tournament in August, and the "Fall Kickoff" tournament in September. Additional enhancements were made to table games in the second quarter, including the introduction of the very popular No-limit Texas Hold'em poker, as well as Sit 'n' Go poker, and early bird tournament formats. "Lucky Ladies", a popular Blackjack betting option, was introduced in September and was promoted with cash winnings totaling over $85,000.

Capital improvements were made at the Sydney Casino during the second quarter, including the addition of new slot machines with Ticket-in Ticket-out technology, and renovations to the gaming floor area and the All Star Grille restaurant.

In August 2006, ***Support4Sport***, a suite of ticket lottery products being sold to raise money for sport in Nova Scotia, was launched. The first ticket in the ***Support4Sport*** series is a Commonwealth Games-themed package of scratch tickets. One hundred percent of the profits from all ***Support4Sport*** branded lottery products will go directly to sport in Nova Scotia. Half the money will go to the 2014 Halifax Commonwealth Games and the other half will be distributed by Sport Nova Scotia's Amateur Sport fund. If Halifax does not win the bid to host the 2014 Commonwealth Games, that portion of the funding will be directed to the 2011 Canada Games.

During the past quarter, Nova Scotia has seen exciting new lottery initiatives, including the introduction of the WISHBOX-brand lottery kiosk in July; Game Day Pick'em Pools in August; and, Hold'em Poker in September, the first interactive game available in Nova Scotia on the PlaySphere website.

BALANCE SHEET

As at September 30, 2006 (unaudited)
(in thousands)

ASSETS

	2006	2005
Current		
Cash and Short-term Investments	$ 5,527	$ 6,900
Cash – restricted	5,817	1,722
Accounts receivable – Operators	-	763
Accounts receivable	100	-
Inventory, at cost	1,583	1,378
Prepaids	815	311
	13,842	11,074
Long-term		
Cash – Casino Capital Replacement Reserve	1,333	4,561
Deferred charges	124	276
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation	1	1
Capital assets	108,107	104,720
	109,566	109,559
	$123,408	$120,633

LIABILITIES

Current		
Accounts payable	$ 1,772	$ 3,246
Deferred lottery revenue	254	395
Liabilities for unclaimed prizes	5,817	1,722
Capital obligation – current portion	12,856	37,178
Due to Operators	10,443	-
Due to Atlantic Gaming Equipment Limited – current portion	11,658	12,802
Due to Nova Scotia Gaming Foundation	62	72
Due to Province of Nova Scotia	48,571	36,149
	91,433	91,564
Long-term		
Due to Atlantic Gaming Equipment Limited	3,813	10,997
Capital obligation	17,047	7,656
	20,860	18,653
	112,293	110,217

EQUITY

Casino Capital Replacement Reserve	11,115	10,416
	$123,408	$120,633

Statement of Income and Payment to Province

For the Second Quarter Ended September 30, 2006 (unaudited)
(in thousands)

	2006								2005							
	LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL		LOTTERIES		CASINOS		RESP. GAMBLING	OTHER	TOTAL	
	Ticket Lottery	Video Lottery	HFX	SYD			2nd Qtr	Year to date	Ticket Lottery	Video Lottery	HFX	SYD			2nd Qtr	Year to date
Revenues	$52,059	$39,684	$21,090	$6,639	$ -	$ 566	$120,038	$240,844	$46,565	$47,084	$20,520	$5,981	$ -	$ 62	$120,212	$243,489
Expenses	39,265	14,467	18,463	5,225	1,657	1,367	80,444	167,633	37,584	16,516	18,635	4,790	1,733	787	80,045	163,595
Net Income	12,794	25,217	2,627	1,414	(1,657)	(801)	39,594	73,211	8,981	30,568	1,885	1,191	(1,733)	(725)	40,167	79,894
Win Tax	-	-	3,868	1,210	-	-	5,078	9,474	-	-	3,673	1,095	-	-	4,768	9,068
Payment to Province	$12,794	$25,217	$ 6,495	$2,624	$(1,657)	$ (801)	$ 44,672	$ 82,685	$ 8,981	$30,568	$ 5,558	$2,286	$(1,733)	$(725)	$ 44,935	$ 88,962

Statement of Retained Earnings

For the Second Quarter Ended September 30, 2006 (unaudited)
(in thousands)

	2006		2005	
	2nd QUARTER	YEAR TO DATE	2nd QUARTER	YEAR TO DATE
Retained earnings, beginning of period	$ 33,617	$ -	$ 39,727	$ -
Net income	39,594	73,211	40,167	79,894
Net income paid to Province	(73,211)	(73,211)	(79,894)	(79,894)
Retained earnings, end of period	$ -	$ -	$ -	$ -

STATEMENT OF CASH FLOW

For the second quarter ended
September 30, 2006 (unaudited)
(in thousands)

	2006	2005
Operating		
Net Income	$ 39,594	$ 40,167
Allocation of income to Province	(39,594)	(40,167)
Amortization	3,959	4,937
Net changes in working capital	601	(6,335)
	4,560	(1,398)
Financing		
Decrease in obligation to Atlantic Gaming Equipment Limited	(1,985)	(3,594)
Reduction of capital obligation	(4,301)	(3,961)
	(6,286)	(7,555)
Investing		
Purchases of capital assets	(4,287)	(376)
Decrease in Casino Capital Replacement Reserve, net of cash	1,396	188
	(2,891)	(188)
Net (decrease) in cash & cash equivalents	(4,617)	(9,141)
Cash, beginning of quarter	10,144	16,041
Cash, end of quarter	$ 5,527	$ 6,900

CERTIFICATION

For the second quarter ended
September 30, 2006 (unaudited)

I have evaluated the effectiveness of NSGC's disclosure controls and procedures as of the end of the period covered by the Quarterly Report and conclude that such disclosure controls and procedures have been effective.

Marie T. Mullally, C.A.
President & CEO

Robert MacKinnon, C.A.
Vice President Finance